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India

Oilseeds and Products

Indian Government Increases Reference Prices of Edible Oils

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Report Highlights:

Effective September 30, 2005, the Government of India (GOI) revised edible oil tariff values upwards marginally to reflect international prices. Trade sources say that although this revision, within two weeks from the previous change, is unlikely to affect domestic edible oil prices, frequent changes in tariff values are likely to result in unhealthy speculation in the domestic edible oil market.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1]
[IN]

Indian government increases reference prices of edible oils

The Indian government increased the reference prices of palm oil and related products, effective September 30, 2005, to reflect international prices. The last revision was on September 16, 2005. Contrary to the GOI's much-publicized trigger norm of a ten percent deviation from the previous reference prices, the current revision reflects a less-than one percent change in most cases.

Table: Revised Tariffs and Reference Prices on Vegetable oils

	Previous Reference Price (\$/Ton)	Current Reference Price (\$/Ton)	Current Tariff (% Ad Valorem)	Difference in Tax Incidence (\$/Ton) 1/
Crude Palm Oil	397	402	80	+4.0
RBD Palm Oil	418	420	90	+1.8
Other Palm Oils (other than Crude Palm Products)	408	411	90	+2.7
Crude Palmolein	414	418	80	+3.2
RBD Palmolein	427	430	90	+2.7
Other Palmolein	421	424	90	+2.7
Crude Soybean Oil	506	508	45	+0.9

1/ Difference in Tax Incidence = (Current Reference Price - Previous Reference Price) x (Current Tariff Rate / 100)

The marginal increase in tariff incidence (See Table) on imported vegetable oils, according to the trade, is unlikely to have much impact on the domestic edible oil prices. However, the Solvent Extractors Association of India (a national level vegetable oil producers' association), says that such frequent change in reference prices by the government will lead to unhealthy speculation in the markets, affecting the interests of trade.

The government notification announcing the change in the reference prices is available at: <http://www.cbec.gov.in/cae/customs/cs-act/notifications/notfns-2k5/csnt89-2k5.htm>

GOI raises Minimum Support Price for Mustard/Rapeseed

The GOI increased the minimum support price (MSP) for mustard/rapeseed for MY 2005/06 by \$3.41/ton to \$390/ton in an effort to boost mustard/rapeseed cultivation. The previously announced support price of \$387/ton for rapeseed had led to the accumulation of 2 million tons in stocks with the National Agricultural Marketing Federation (NAFED) -- the government agency vested with procurement operations in major growing areas. As the current selling price of mustard/rapeseed in the open markets is prevailing at \$359/ton, lower than its procurement price, NAFED is unable to offload its stocks at the earlier announced MSP, even after bearing its storage and transportation costs. Domestic crushers opine that given the current domestic prices of mustard/rapeseed oil and meal, they would not be able to purchase mustard/rapeseed above the \$364/ton level. Hence, crushers believe that any upward revisions in MSP of the oilseeds would have to be followed by tariff rate increases on edible oils to shore up the domestic markets depending on the prevailing prices.

Trade sources mention that such poorly coordinated policy changes are likely to lead to increased carrying costs for the government procurement agencies, in addition to affecting the capacity utilization and the crush margins of the domestic industry.